



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Alliance Financial Services, Inc. Alliance Bank

Person to be contacted regarding this report:	Stephen Byelick
CPP Funds Received:	\$12,000,000
CPP Funds Repaid to Date:	\$0
Date Funded (first funding):	6/26/2009
Date Repaid ¹ :	

RSSD: (For Bank Holding Companies)	1127146
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	10973
City:	Saint Paul
State:	Minnesota

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/> Increase lending or reduce lending less than otherwise would have occurred.	Alliance Bank ("Bank") made \$32.8 million in new loans from July 1, 2009 to December 31, 2009. The Bank also renewed \$333.8 million of existing loans during the same period. Without the CPP funds the Bank would have not made new loans and curtailed renewals dramatically.
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<input type="checkbox"/>	<p>To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).</p>	
<input type="checkbox"/>	<p>Increase securities purchased (ABS, MBS, etc.).</p>	
<input type="checkbox"/>	<p>Make other investments</p>	
<input checked="" type="checkbox"/>	<p>Increase reserves for non-performing assets</p>	<p>From July 1, 2009 to December 31, 2009 the bank recorded a net increase of \$3.4 million to the allowance for loan losses. The increase was net of \$8.9 million in net charge-offs during the same period. In addition, during the same period, the Bank wrote down other real estate properties \$1.3 million.</p>

<input checked="" type="checkbox"/>	Reduce borrowings	<p>CPP funds received by Alliance Financial Services ("Holding Company") were deposited in the Bank and initially used to pay down Federal Home Bank Advances and reduced brokered CD's balances</p>
<input checked="" type="checkbox"/>	Increase charge-offs	<p>The Bank net charge-offs of \$8.9 million from July 1, 2009 to December 31, 2009. CPP funds allowed the Bank to maintain strong regulatory capital ratios despite the high level of charge offs.</p>
<input type="checkbox"/>	<p>Purchase another financial institution or purchase assets from another financial institution</p>	
<input checked="" type="checkbox"/>	<p>Held as non-leveraged increase to total capital</p>	<p>A total of \$6 million of the CPP funds have been added to the Bank's capital to maintain strong regulatory capital ratios as the Bank navigates through the current economic downturn. The remaining funds are retained at the Holding Company to provide a source of capital strength to the Bank.</p>

What actions were you able to avoid because of the capital infusion of CPP funds?

CPP funds allowed the Bank to continue to lend to new customers to support businesses and individuals in the communities it serves. Without the CPP funds the Bank would have also curtailed renewals of existing loans significantly which allowed the Bank to retain those customer relationships.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

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